

Please return to Judge Marshall

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

DOCKETED FILED

JAN 7 1975
H. STUART CUNNINGHAM
At _____ o'clock
CLERK

THE MAGNAVOX COMPANY, a)
Corporation, and SANDERS)
ASSOCIATES, INC., a)
Corporation,)
Plaintiffs,)
v.)
BALLY MANUFACTURING)
CORPORATION, a Corporation,)
et al.,)
Defendants.)

Civil Action
No. 74 C 1030

PLAINTIFFS' MEMORANDUM IN OPPOSITION
TO MOTION OF DEFENDANT
BALLY MANUFACTURING CORPORATION
FOR SUMMARY JUDGMENT

Defendant Bally Manufacturing Corporation (Bally) seeks summary judgment under F.R.Civ.P. Rule 56 dismissing this action against it giving the grounds that it "neither makes, uses nor sells any of the accused video devices, nor has it committed any other acts constituting patent infringement as defined in the patent statutes." An affidavit of its Executive Vice-President, John A. Britz, was submitted to support the motion. Plaintiffs oppose the motion. The Britz affidavit alone shows the inappropriateness of the relief sought and that Bally in fact has sold the accused devices. Moreover, the deposition of Britz taken on June 25, 1974 and the deposition of an officer of one of Bally's wholly owned subsidiaries taken on that same

date indicate the presence of genuine issues as to material facts, precluding the granting of summary judgment.

BALLY HAS SOLD THE ACCUSED DEVICES

Paragraph 5 of the Britz affidavit states that on two occasions, "Bally received orders for video games", "obtained the games", "shipped them to the customers", and "billed the customers". From this sketchy outline of the facts surrounding the transactions, it can only be concluded that Bally, in fact, has sold machines of the type alleged to infringe the patents in suit.

Bally attempts to minimize the effects of these sales by stating that the machines were obtained from its wholly owned subsidiary and co-defendant Midway Mfg. Co. (Midway) and that Midway was credited with an amount equal to Bally's resale price for the machines. The presence or absence of any profit by Bally in the transactions is irrelevant. The statute defining patent infringement, 35 U.S.C. § 271, includes no requirement that a defendant make a profit from its sales of a patented invention before it can be found to have infringed the patent; the mere sale of infringing devices is sufficient.

Further, it is clear that Bally did profit from the sales. Any sale by Midway results in income to Midway and is to the benefit of its stockholders. In this case, Bally as the sole stockholder of Midway received just as much gain from the sale of the involved machines as did Midway. Bally surely did not go through the exercise of obtaining the machines and shipping

them to its customers merely to be accommodating. It expected to obtain gain from those transactions and did.

It should further be noted that the Britz affidavit is completely silent as to the number of machines involved in the 1973 transactions. That silence can only be taken to mean that the number was not insignificant.

THERE EXISTS A GENUINE ISSUE OF FACT AS TO WHETHER BALLY AND MIDWAY ARE SEPARATE CORPORATIONS

Bally does not deal with the issue of corporate separateness in its memorandum in support of its motion. However, the discovery thus far conducted in this action clearly shows that Midway and Bally should not be treated as separate corporate entities for the purposes of this action or, at the least, that a genuine issue of fact exists as to the corporate separateness of those two defendants.

Midway, of course, is a wholly owned subsidiary of Bally. That fact, of itself, suggests that the operations of Midway are controlled by Bally and that Midway is not a separate and independent corporation. What evidence is presently of record further suggests substantial overlap between the two corporations. A Mr. Wolverton is the president of Midway (Ross, p. 10.)* He is also a director of Bally. (Ross, p. 38.)

*Hereinafter, references to pages of the transcript of the depositions of John A. Britz, Executive Vice-President of Bally, and Henry Ross, Secretary-Treasurer of Midway, both taken on June 25, 1974 will be as follows: (Britz, p. __.); (Ross, p. __.). The exhibits introduced during those depositions will be referenced with their exhibit numbers as follows: (Britz Ex. __.); (Ross Ex. __.).

Three of the distributors Midway uses to sell the games it manufactures are wholly or partly owned by Bally. (Ross, p. 40.) Bally has provided engineering services to Midway without charge. (Britz, p. 23.) Bally has on its payroll a house counsel by the name of Tomlinson who does work for Midway, also without charge to Midway. (Britz, pp. 22-3, 30-31.) Certain Midway accounting functions are performed on Bally's computer; Britz could not state whether the cost of these services was charged to Midway. (Britz, pp. 23-4.) Midway advises Bally of information regarding Midway's production. (Britz, p. 62.) Midway prepares no annual report of its own; it is consolidated with Bally's. (Ross, p. 37.) As will be discussed more fully in the following section of this memorandum, the actions of both Bally and Midway with respect to the allegedly infringing devices and the patents in suit further show a lack of corporate separateness.

Thus, the facts of record in this action require the conclusion that the necessary distinctions to maintain Bally and Midway as separate corporate entities have not been maintained. Bally, then, is just as responsible for any acts of infringement committed in the name of Midway as is Midway. Bally is a proper defendant in this action and the complaint should not be dismissed as to it.

BALLY HAS INDUCED INFRINGEMENT AND HAS INFRINGED JOINTLY WITH MIDWAY

The facts developed so far in this action establish beyond a doubt that Bally played a significant role in the design

and development of some of the accused devices of Midway. The first amended complaint herein alleges that defendants Bally and Midway, among others, have and are jointly infringing the patent in suit. Bally's memorandum in support of its motion does not deal with the issue of joint infringement. The Patent Code, 35 U.S.C. § 271(b), provides that one who induces infringement of a patent is liable as an infringer of that patent. Bally's memorandum does not deal with the issue of inducement to infringe. These two issues are significant in this case.

The depositions of Britz of Bally and Ross of Midway establish the following facts with respect to the development of two of Midway's video games known as "Winner" and "Asteroid". In the Fall of 1971, Britz attended a show sponsored by the Music Operators of America at the Conrad Hilton in Chicago. (Britz, pp. 14-15.) A video game manufactured by Nutting Associates and designed by Nolan Bushnell was displayed at the show. (Britz, pp. 13-14.) Partly as a result of that demonstration, Bally and Bushnell entered into an agreement dated June 26, 1972. That agreement was entitled "Royalty Agreement". (Ross Ex. 3.) The agreement provided, in part, that for a period of six months Bushnell would devote his exclusive efforts, with one exception, to the design of amusement games for Bally, that he would provide Bally with prototypes of a video amusement game and a mechanical amusement game of the pinball type, that Bally would pay Bushnell a 3 percent royalty on the games sold, and that Bally would pay Bushnell \$4,000 per month for six months as an advance against those

royalties, plus expenses. The agreement was executed by Britz for Bally. Shortly thereafter on July 10, 1972, Bushnell executed an affidavit stating that the ideas he had disclosed to Bally were his alone. (Britz Ex. 3.) The affidavit was requested by William Tomlinson, Bally's house counsel. (Britz, p. 18.) On that same date, Bushnell wrote to Britz setting forth his plans with respect to the video and mechanical games he was going to provide Bally. (Britz Ex. 2.) Bally made each of the six \$4,000 monthly payments to Bushnell specified in the Royalty Agreement. (Britz, pp. 6 & 39.) In the Fall of 1972, Bushnell brought a video game referred to as "Pong" to the Bally plant where it was demonstrated to Britz and Joseph Lally, Bally's chief engineer. (Britz, pp. 8 & 21.)

After Bushnell had demonstrated the Pong game to Britz and Lally, Lally and Bushnell took it to the Midway plant where Britz joined them later. (Britz, pp. 21-22.) The game was there demonstrated to Wolverton, Midway's president. (Britz, p. 24.) Bally did not accept the game as fulfilling the provisions of the Royalty Agreement relating to video games, partly because Midway already had a similar type game. (Britz, p. 25.) Britz also testified that Midway's Wolverton "passed it by", leading one to the conclusion that Bushnell and Bally showed the Pong game to Wolverton to ascertain whether Midway would be interested in manufacturing it.

In February, 1973, Bushnell returned to Chicago with a prototype video game called "Asteroid" and demonstrated it

in Britz's office. (Britz pp. 19 & 32.) This prototype was to fulfill the provisions of the Royalty Agreement with Bally. (Britz, p. 33.) Bally, however, decided not to make the Asteroid game. (Britz, pp. 33-4.) Instead, Midway simply took it over; Midway manufactured that game rather than Bally. (Britz, pp. 33-4.) This occurred as a result of a discussion among Wolverton, Ross, and Britz, with the consent of Bally's president. (Britz, p. 34.) Britz could not recall whether there was any discussion of whether Midway would pay Bally for the development work on Asteroid. (Britz, p. 35.) Bally and Midway were asked to produce any documents relating to any such payments, but no such records have been produced.

Following this, Midway entered into an agreement with Atari, Inc., a company that Bushnell had formed. (Ross Ex. 2.) That agreement provided that Atari would supply Midway with sufficient technology to manufacture certain games designated as the VP-1 and VP-2, those games corresponding to Pong and Asteroid, respectively. (Ross, p. 9.) In return, Midway would pay Atari a royalty of \$31.00 per machine of the Pong type (i.e., the type Bally had rejected as not fulfilling its agreement with Bushnell) and a royalty as provided for in the prior Bally agreement with Bushnell for machines of the Asteroid type (i.e., the type not rejected by Bally). Midway commenced manufacture of Winner, a Pong-type game, in April, 1973, and of Asteroid in September, 1973. (Ross, pp. 22 & 24.) Both Winner and Asteroid were made to specifications supplied by Atari.

(Ross, pp. 23-25.) Midway payed Atari the royalties due under the agreement on the Winner game, but did not pay the required royalties on Asteroid. The reason for Midway's failure to pay, according to Ross, was that Bushnell had breached the original contract, i.e., the Royalty Agreement with Bally, by manufacturing that game himself. (Ross, pp. 25-7.) Midway, thus, failed to pay royalties due under an agreement with Atari because of a prior breach of an agreement with Bally.

From this statement of facts, it is clear that Bally was responsible for the design of at least two of Midway's video games. Moreover, the designs were simply given to Midway by Bally without any compensation for the sums Bally expended for the design of the games. Midway went into the manufacture of these games after first talking to Bally about it. Midway agreed to pay a royalty on one of those machines in accord with a prior agreement with Bally. Certainly Bally had substantial connection with Midway's manufacture and sale of at least some of Midway's infringing games. This, particularly in view of the lack of corporate separateness between Midway and Bally, makes Bally liable as a joint infringer with Midway and for inducing Midway's infringement.

It should also be noted that many Midway activities with respect to the patents in suit were actually conducted through Bally. These facts are set forth in the Britz deposition and attached affidavit of Thomas A. Briody, house Patent Counsel

for plaintiff Magnavox.* In particular, Bally originally made inquiries of Magnavox about its willingness to license the patents in suit; however the matter was not fully resolved. (Britz, pp. 45-53 & 55-59.) Subsequently, Magnavox became aware of the Midway-Atari license and on April 2, 1973 and May 24, 1973, wrote to Midway informing it of the Magnavox patent rights. (Briody, ¶¶ 2-4.) On May 31 Tomlinson, Bally's general counsel, wrote Magnavox in reply to those letters; that reply was on Bally stationery and was signed by Tomlinson as Bally's general counsel. (Briody, ¶ 5.) All subsequent licensing negotiations between the parties relating to Midway's infringement of the patents in suit were conducted between Magnavox, Tomlinson, and Mr. Donald Welsh, an attorney for both Bally and Midway in this action. (Briody, ¶¶ 6-8.) Thus all negotiations relating to a license for Midway's activities under the patents in suit were conducted through Bally, even though those negotiations occurred after the date of the agreement between Midway and Atari, February 22, 1973.

It is clear that Bally not only was responsible for Midway's infringing the patents in suit, but it also actively participated in the licensing negotiations relating to the patents in suit. Bally is closely and intimately connected with Midway's activities with respect to this action. It bears the same liability for those activities as does Midway.

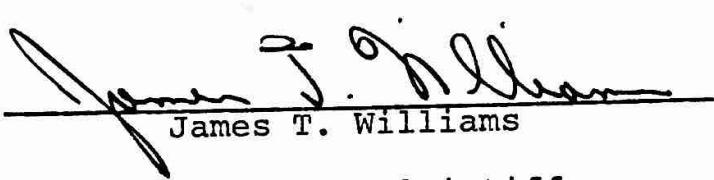
*References to paragraphs of the Briody affidavit will be as follows: (Briody, ¶ __.)

Bally should not be dismissed from this action.

CONCLUSION

It is apparent both that substantial issues of fact are present in this action and that Bally is not entitled to judgment as a matter of law. Neither of the two prerequisites to the granting of summary judgment as set forth in Rule 56(c), F.R.Civ.P., are present here. The motion of defendant Bally should be denied.

Respectfully submitted,



James T. Williams

Attorney for Plaintiffs
The Magnavox Company
and
Sanders Associates, Inc.

77 West Washington Street
Chicago, Illinois 60602
(312) 346-1200

January 6, 1975

Of Counsel:

Thomas A. Briody, Esquire
The Magnavox Company
1700 Magnavox Way
Fort Wayne, Indiana 46804

Louis Etlinger, Esquire
Sanders Associates, Inc.
Daniel Webster Highway, South
Nashua, New Hampshire 03060

James T. Williams, Esquire
Neuman, Williams, Anderson & Olson
77 West Washington Street
Chicago, Illinois 60602

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Defendants.)
Civil Action
No. 74 C 1030

AFFIDAVIT OF THOMAS A. BRIODY

STATE OF INDIANA)
COUNTY OF ALLEN) SS:

I, THOMAS A. BRIODY, do depose and say as
follows:

1. I am an attorney licensed to practice in the
State of Indiana. I am Patent Counsel for the Magnavox
Company (hereinafter "Magnavox"), one of the plaintiffs
in the above-entitled action, and have held that position
since September, 1972.

2. On or before April 2, 1973, Magnavox became
aware that Midway Mfg. Co. (hereinafter "Midway"), one of

the defendants in the above-entitled action, had entered into a license agreement with Atari, Inc. related to video games.

3. On April 2, 1973, a letter from Magnavox and signed by me was sent to "Midway Manufacturing Company" calling the attention of Midway to the rights of Magnavox under the two patents in suit in the above-entitled action. That letter was addressed to Midway at its location in Schiller Park, Illinois. A copy of that April 2, 1973 letter is attached hereto as "Exhibit A".

4. On May 24, 1973, a letter from Magnavox and signed by me was sent to "Midway Manufacturing Company" referring to the letter of Exhibit A and calling the attention of Midway to certain further patent rights of Magnavox and proposing certain licensing terms. That letter was also addressed to Midway at its location in Schiller Park, Illinois. A copy of that May 24, 1973 letter is attached hereto as "Exhibit B".

5. Shortly after May 31, 1973, Magnavox received a reply to the letters of Exhibits A and B. A copy of that reply is attached hereto as "Exhibit C". The reply is on the letterhead of Bally Manufacturing Corporation (hereinafter "Bally") giving the address of Bally's facility on Belmont Avenue in Chicago, Illinois, and is signed by

William J. Tomlinson, General Counsel, Bally Manufacturing Corporation. The reply specifically acknowledges receipt of the May 24 letter of Exhibit B to Midway and states, "[T]he matter is being studied by our patent attorneys...."

6. On July 20, 1973 and September 6, 1973, letters from Magnavox and signed by me were sent to Mr. Tomlinson at Bally's Belmont Avenue address relating to Midway and Magnavox' patent rights in video games. Copies of the July 20, 1973 and September 6, 1973 letters are attached hereto as "Exhibit D" and "Exhibit E", respectively.

7. On October 3, 1973, Magnavox received a letter dated October 1, 1973 relating to Midway and Magnavox' patent rights in video games. A copy of the October 1, 1973 letter is attached hereto as "Exhibit F". The letter of Exhibit F is on the letterhead of Bally and is signed by William J. Tomlinson, General Counsel, Bally Manufacturing Corporation.

8. Subsequent to October 3, 1973, further correspondence was had and negotiations were conducted relating to a license under the Magnavox patent rights in the field of video games for the activities of Midway. In all the correspondence and negotiations, Midway was

represented by Mr. Tomlinson as General Counsel for Bally
and/or by Donald L. Welch, one of the attorneys repre-
senting both Bally and Midway in the above-entitled action.

Thomas A. Briody
Thomas A. Briody

SUBSCRIBED and SWORN to before me in Fort Wayne,
Indiana, this second day of January, 1975.

Linda Janne Schumann
Notary Public

My Commission Expires: 03/02/78

171
April 2, 1973

Midway Manufacturing Company
Schiller Park, Illinois

Gentlemen:

We recently learned that Atari, Inc. of Santa Clara, California has licensed you to make coin operated games such as their "Pong" game. In this regard, we would like to call your attention to U. S. Patent Nos. 3,659,284 and 3,659,285.

The subject patents are owned by Sanders Associates, Inc. of Nashua, New Hampshire, and we have an exclusive license under these and other related patents and applications.

Kindly inform us of your position concerning our patents. In the event that you are desirous of obtaining a non-exclusive license, I will be pleased to discuss this with our management. Otherwise, if you are manufacturing the "Pong" type games, we must ask that you discontinue any unauthorized infringement of the above patents.

Very truly yours,

Thomas A. Brody

mjr

bcc: W. Surette
S. Rozel
A. di Scipio
R. Seeger
R. Fritsche
M. O'Hara

"EXHIBIT A".

Registered - return receipt
requested

May 24, 1973

Midway Manufacturing Company
Schiller Park, Illinois

RE: Midway Manufacturing Company
U.S. Patents 3,659,284; and 3,659,285

Gentlemen:

Reference is made to my letter of April 2, 1973, whereby we called your attention to our U.S. Patent numbers 3,659,284 and 3,659,285, with respect to your "Pong" games.

Please be advised that another relevant patent has recently issued to our licensor, Sanders Associates. This patent number is 3,728,480, and Magnavox also has an exclusive license under it.

As yet, no licenses have been granted. However, my management at Magnavox has indicated their willingness to grant non-exclusive licenses to reputable amusement game manufacturers at a reasonable royalty rate. The license would be limited to the amusement game field and also non-transferable. In view of the substantial investment of Magnavox in the "Odyssey" game business and our understanding of the significant profits involved in the application of these games to the amusement field, the reasonable royalty which we are asking of prospective licensees is seven percent (7%) of net sales billed, an initial advance on future royalties of Five Thousand Dollars (\$5,000), and a minimum payment of One Thousand Dollars (\$1,000) per year.

Kindly advise us of your position regarding this matter.

Very truly yours,

T. A. Brody

mh

bcc: S. Rozel
W. Surette
A. di Scipio
R. Seeger
R. Fritsche
M. O'Hara
T. Hafner

"EXHIBIT B"

Bally | MANUFACTURING CORPORATION

2640 Belmont Avenue, Chicago, Illinois 60618, U.S.A.
Telephone: (312) 267-6060 Cables: BALFAN
Telex No. 253076

WORLD'S LARGEST MANUFACTURER OF COIN-OPERATED AMUSEMENT EQUIPMENT

May 31, 1973

Mr. Thomas A. Briody
Corporate Patent Counsel
THE MAGNAVOX COMPANY
Fort Wayne,
Indiana 46804

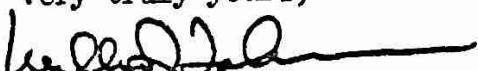
Dear Sir:

This is to acknowledge receipt of your letter of May 24, 1973, relative to MIDWAY MANUFACTURING COMPANY and its game, known as WINNER.

Please be advised that the matter is being studied by our patent attorneys who have written for the relevant patents.

The remaining contents of your letter have been noted and you may expect a prompt reply.

Very truly yours,



William J. Tomlinson
General Counsel
BALLY MANUFACTURING CORPORATION

WJT:gdk

"EXHIBIT C"

BRANCH FACTORY IN IRELAND

July 20, 1973

Mr. William J. Tomlinson
General Counsel
Midway Manufacturing Corporation
640 Belmont Avenue
Chicago, Illinois 60618

RE: U.S. Patents 3,659,284; 3,659,285; and 3,728,480
Midway Manufacturing Company

Dear Mr. Tomlinson:

We would appreciate an early response from your patent attorneys concerning my letters of April 2 and May 24, 1973 about the above patents.

As earlier indicated, Magnavox is willing to grant non-exclusive licenses to reputable amusement game manufacturers at reasonable royalty rate. Since I last wrote to you, the reasonable royalty we are asking has been reduced to six percent (6%) of net sales billed. The other general terms required for a license under all the relevant patents are an initial advance on future royalties of Five Thousand Dollars (\$5,000) and a minimum payment of Five Hundred Dollars (\$500) per year.

Your attention to this matter would be greatly appreciated.

Very truly yours,

Thomas A. Brody

"EXHIBIT D"

September 6, 1973

Mr. William J. Tomlinson
General Counsel
Bally Manufacturing Corporation
2640 Belmont Avenue
Chicago, Illinois 60618

RE: U.S. Patents 3,659,284; 3,659,285; and 3,728,480
Midway Manufacturing Company

Dear Mr. Tomlinson:

May we please have a response in the near future to our letters of April 2, May 24, and July 27, 1973 regarding the above subject.

Your prompt attention to this matter would be very much appreciated.

Very truly yours,

Thomas A. Brody

mh

"EXHIBIT E"

BALLY MANUFACTURING CORPORATION

2640 Belmont Avenue, Chicago, Illinois 60618, U.S.A.
Telephone: (312) 267-6060 Cables: BALFA
Telex No. 2530

WORLD'S LARGEST MANUFACTURER OF COIN-OPERATED AMUSEMENT EQUIPMENT

October 1, 1973

Mr. Thomas A. Briody
Corporate Counsel
The Magnavox Company
Fort Wayne
Indiana 46804

WAB, 10/3/73

In Re: U.S. Patents 3,659,284; 3,659,285 and
3,728,480

Dear Mr. Briody:

Our subsidiary, Midway Manufacturing Company, advises that it is producing "WINNER" under license from The Atari Company, 2962 Scott Boulevard, Santa Clara, California 95050.

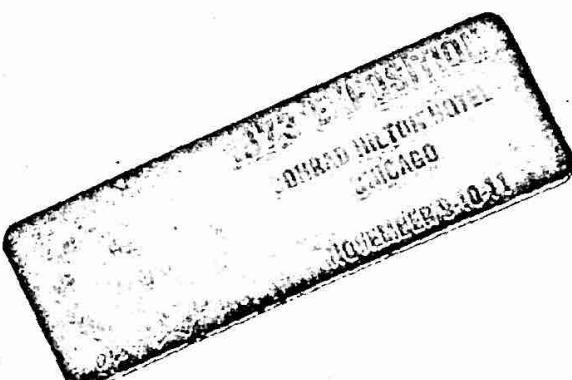
The Atari Company has requested that you correspond with them with respect to the above-captioned patents inasmuch as they advised us that they are in negotiation with you concerning them.

If you will merely keep us advised of your negotiations with them by carbon copies, we will be appreciative.

Very truly yours,

William J. Tomlinson
William J. Tomlinson
General Counsel
BALLY MANUFACTURING CORPORATION

WJT:gdk



"EXHIBIT F"

BRANCH FACTORY IN IRELAND